

LOS ANGELES UNIFIED SCHOOL DISTRICT
Proposition BB, Measure K, Measure R, and
Measure Y School Bond Construction Programs
Agreed-Upon Procedures Report
For the Year Ended June 30, 2015,
Statements of Bond Expenditures
and Supplementary Schedules as of June 30, 2015
(With Independent Auditor's Reports Thereon)





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Independent Accountant's Report on Applying Agreed-Upon Procedures and Management's Responses to Exceptions

The Honorable Board of Education
Los Angeles Unified School District:

We have performed the procedures enumerated below, for the Proposition BB, Measure K, Measure R, and Measure Y School Bond Construction Programs (Bond Programs) which were agreed to by the Los Angeles Unified School District's (the District or LAUSD) officials and bond oversight committee, solely to assist the District and its management in fulfilling its oversight responsibility surrounding the administration of the Bond Programs for the year ended June 30, 2015. District management is responsible for the administration of the Bond Programs. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and the corresponding findings are as follows. The samples selected below were for Proposition BB, Measure K, Measure R, and Measure Y expenditures, unless otherwise noted.

Procedure 1

From a population of all expenditures charged to Commitment Item #500000 in the general ledger for the year ended June 30, 2015, we selected a total of 50 expenditures samples with WBS account assignments from the Local Bond Funds (Proposition BB, Measure K, Measure R, and Measure Y) to represent the following distributions:

- 10 expenditures to represent Facilities (non-Maintenance and Operations (M&O)),
- 25 expenditures to represent M&O,
- 10 expenditures to represent Information Technology Division (ITD) – Select ITD samples to include expenditures for the Instruction Technology Initiative (ITI) (formerly Common Core Technology Project), My Integrated Student Information System (MiSiS), and IT Network Upgrades, and
- 5 expenditures to represent Integrated Library and Textbook Support Services (ILTSS).

We obtained supporting invoices for the expenditures selected and performed the following procedures:



- 1.1 We tested the 50 invoices from the different Bond Funds selected in Procedure 1 to determine whether amounts expended were consistent with the work scope of each of the respective bond measures as presented to the voters and further defined by various Board approved Strategic Execution Plans and amendments.

Results

We read the ballot measures to understand the work scope and list of specific projects proposed to be financed with the proceeds of the Local Bonds. We then inspected the invoices supporting the samples tested to determine whether amounts expended were consistent with the work scope of each bond measure. As required by Section 3 of Proposition 39, a list of specific projects is to be presented to the voter in each ballot. As such, we identified the projects to which the above expenditures were incurred and traced these projects to the Bond Project List presented in the Full Text of Ballot Measure K, R and Y (Proposition BB was issued under the traditional authority and not under Proposition 39; therefore references to specific school facilities projects were not required).

No exceptions were noted as a result of performing this procedure.

- 1.2 We tested the 50 invoices from the different Local Bond Funds selected in Procedure 1, to determine whether the corresponding projects or non-project allocations in each of the invoices were included in the related Strategic Execution Plan (SEP) or approved SEP amendments. If the invoice had multiple projects, up to 5 projects from the invoice were traced to the SEP.

Results

No exceptions were noted as a result of performing this procedure.

- 1.3 For the items selected in Procedure 1 that represents FSD construction payments, we determined whether the following requirements of construction project payment procedures had been met:

- a) There are signatures on the required lines where the Contractor has certified the Application for Payment; and that the Owner Authorized Representative (OAR) has certified that the services have been rendered.
- b) Payment package includes the Encumbrance/Payment request form, the Application for Payment, the Owner Assessment Summary, and other necessary supporting documents.

Results

There were 5 samples that we selected in Procedure 1 above which represented construction payments. No exceptions were noted as a result of performing this procedure.



- 1.4 For the items selected in Procedure 1 above, we determined whether the payment package was appropriately approved and reviewed for payment.

Results

No exceptions were noted as a result of performing this procedure.

Procedure 2

From the population of all expenditures charged to Commitment Item #700000 in the general ledger for the fiscal year ended June 30, 2015, we selected a total of up to five (5) inter-fund transfers out (IFT-Out) transaction samples from the Proposition 39 Local Bond funds (Measure K, Measure R, and Measure Y) to represent Board-authorized Bond work scope that is executed outside of the Local Bond funds. We traced the inter-fund transfer from Local Bond funds to the non-Bond program (functional area) where the work scope commitments are recorded and selected a total of 10 non-labor expenditure samples charged to Commitment Items #400000, #500000, and #600000, related to the Bond inter-fund transfers out. We obtained supporting invoices for these selected expenditures and performed the following procedure:

- 2.1 For each invoice selected in Procedure 2, we determined whether amounts expended were consistent with the work scope in the Board Report authorizing Other Financing Uses of Bond funds.

Results

No exceptions were noted as a result of performing this procedure.

Procedure 3

From the population of all expenditures charged to Commitment Item #500000 in the general ledger for the fiscal year ended June 30, 2015, we selected a total of 20 expenditure samples from the Local Bond funds (Proposition BB, Measure K, Measure R, and Measure Y) corresponding to 20 staff augmentation / professional services staffing agreements with 12 samples representing Facilities (non-M&O), 2 samples representing M&O, and 6 samples representing ITD. We obtained supporting invoices for these selected expenditures and performed the following procedure:

- 3.1 We obtained a copy of each agreement, and reviewed each invoice selected in procedure 3, and reviewed the rates of the individuals within the invoices, to determine the consistency with the terms of the agreement. We reviewed up to five individuals for each invoice tested.

Results

No exceptions were noted as a result of performing this procedure.



Procedure 4

From the population of all expenditures charged to Commitment Items #100000 and #200000 in the general ledger for the fiscal year ended June 30, 2015, we selected a total of 50 expenditure samples from the Proposition 39 Local Bond funds (Measure K, Measure R, and Measure Y) representing the following distribution:

- 8 expenditures to represent Facilities (excluding M&O),
- 25 expenditures to represent M&O,
- 8 expenditures to represent ITD,
- 2 expenditures to represent ILTSS,
- 2 expenditures to represent OIG,
- 2 expenditures to represent OGC, and
- 3 expenditures to represent Finance and Office of Bond Compliance.

We performed the following procedure:

- 4.1 For each expenditure selected in procedure 4 for Proposition 39 Local Bond funds (Measure K, Measure R, and Measure Y), we determined whether the items selected were spent on “administrator salaries” as referenced in the ballot measures, or “teacher salaries” as referenced in the State Proposition 39 as codified in the State Constitution, Article 13A, Section 1(b) (3) (A). Refer to additional guidance provided by the California Attorney General regarding “...Employee Salaries for Bond Program Administrative Oversight”.

Results

No exceptions were noted as a result of performing this procedure.

Procedure 5

From the population of all expenditures charged to Commitment Items #400000 and #500000 in the general ledger for the fiscal year ended June 30, 2015, we selected a total of 50 expenditure samples that have Facilities “Indirect” WBS Commitments or have cost center commitments for those outside of Facilities from the Proposition 39 Local Bond funds (Measure K, Measure R, and Measure Y) to represent the following distribution:

- 10 expenditures to represent Facilities (excluding M&O),
- 22 expenditures to represent M&O,
- 10 expenditures represent ITD,
- 2 expenditures to represent ILTSS,
- 2 expenditures to represent OIG,
- 2 expenditures to represent OGC, and
- 2 expenditures to represent Finance and Office of Bond Compliance.

We obtained supporting invoices for the selected expenditures and performed the following procedure:



- 5.1** For each expenditure selected in procedure 5 for Proposition 39 Local Bond funds (Measure K, Measure R, and Measure Y), we determined whether the items selected were spent on “other day-to-day school operating expenses” as referenced in the State Proposition 39 as codified in the State Constitution Article 13A, Section 1 (b) (3) (A). Refer to additional guidance provided by the California Attorney General regarding “... Employee Salaries for Bond Program Administrative Oversight”.

Results

We noted no expenditures in Commitment Items #400000 and #500000 for the OGC. As such this procedure is not applicable for this department.

No exceptions were noted as a result of performing this procedure.

Procedure 6

From a list of Facilities construction contract change orders generated from the COLIN or Maximo systems approved during the fiscal year ended June 30, 2015, we selected a total of 25 samples, including up to 5 samples from M&O, if any, from the population of all the Local Bond funds (Proposition BB, Measure K, Measure R, and Measure Y). We obtained the District Change Order Procedures and performed the following review to determine compliance with the procedures.

- 6.1** We determined compliance with the following Change Order Policy approval thresholds:
- For new construction work, individual Change Orders may not exceed ten percent (10%) of the original contract price.
 - For demolition, reconstruction or rehabilitation work of existing structures, individual Change Orders may exceed ten percent (10%) according to Public Contract Code, but must not exceed twenty-five percent (25%) of the original contract price.

Results

We identified one (1) Job Order Contract (JOC) Change Order in which the total amount of the Change Order exceeded the threshold, as stipulated in the Change Order Policy, of 25% of the original contract price.

The Change Order was approved as the nature of the cost was related to reimbursement of plans and permits, which based on the department’s analysis qualified as an appropriate exception to the threshold requirement. The Change Order Policy does not stipulate acceptable reasons for the approval of a Change Order which exceeds the threshold requirement. As a result the Change Order was not approved according to the Change Order Policy.



Management Response

The Job Order Contracting procedure did not provide guidance on a job order change of this nature. In this situation there was an unforeseen increase in the cost incurred by the contractor for mandated changes to traffic control plans and building permit. Reimbursement of incurred cost does not represent work scope that can be rebid. This was a small job that was deemed suitable for immediate execution by job order contracting. The change increases a \$31,811 job order by \$12,033 or 37% to \$43,844. While the percentage increase exceeds the limit, the amount is a low order of magnitude. The Job Order Contracting procedure draft is under review to provide guidance on this and similar exceptions, if any. This process will be completed in May 2016.

- 6.2** We determined whether the change order package was submitted with the required documents in accordance with the Change Order checklist from the change order preparation requirements (the checklist form is not required to be included in retained documentation).

Results

No exceptions were noted as a result of performing this procedure.

- 6.3** For End User-initiated change orders, we verified whether the related scope changes did not commence nor the Owner Authorized Representative (OAR) did not process the Change Order until the following has been completed:

- a) End User-initiated Scope Change Request Form completed by OAR
- b) Review and approval by Construction Manager/ Senior Project Manager, Regional Construction Director and Deputy Director of Facilities Project Execution
- c) Request For Proposal (RFP) or Constructive Directive (CD) issued to Contractor.

Results

None of the 25 samples we tested were an End User-Initiated change order. As such, this procedure is not applicable.

- 6.4** We verified compliance with the signatory requirements on the Change Order form.

Results

We identified one (1) M&O Change Order in which the signatory requirements as stipulated on the Change Order form was not consistent with the requirements stipulated in the Change Order Policy.

Although the Change Order was compliant as per the requirements on the Change Order form, we identified that these requirements were inconsistent with that of the Change Order Policy.



Management Response

The approval thresholds and signatures on the Change Order form are correct but are not reflected in the effective Change Order procedure for the audit period. The Change Order form used was updated May 8, 2014, while the effective Change Order procedure was last revised January 30, 2013. FSD initiated an effort to bring all Facilities procedures up to date in February 2014. Unfortunately, the Change Order procedure update is still in draft form to date. Facilities tend to revise forms in shorter cycles than the procedures since the responsible parties are often in different groups. Facilities will revise and align both the Change Order form and procedure and assign responsibility to coordinate further revisions. This process will be completed in April 2016.

- 6.5** We reviewed the change orders for splitting for the purpose of avoiding threshold limits.

Results

For the samples selected, we searched for additional change orders approved for the same contract during fiscal year ended June 30, 2015, and verified that either the initial submittal of the change orders occurred on different dates, or the nature of the services to be performed on the change orders were not related.

No exceptions were noted as a result of performing this procedure.

Procedure 7

We determined whether the total expenditures reported in the year-end “Summary Statements of Bond Expenditures and Other Uses” for each G.O. Bond fund reconcile with the corresponding Comprehensive Annual Financial Report (CAFR) bond fund expenditures for the year ended June 30, 2015.

Results

No exceptions were noted as a result of performing this procedure.

Procedure 8

We selected a sample of 10 projects from the 2015 Facilities Services Division (FSD) Strategic Execution Plan (SEP). We reviewed the sample projects for compliance with the LAUSD School Construction Bond Citizens’ Oversight Committee (BOC) Memorandum of Understanding for Facilities SEP projects for approved changes that occur in the fiscal year ended June 30, 2015:

- 8.1** For each of the 10 projects, we compared the SEP project budgets from the 2014 FSD SEP to the 2015 FSD SEP. For each project with a 2015 FSD SEP project budget that increased \$100,000 or more than the 2014 FSD SEP project budget, if applicable, we determined if the budget increase was reported to the BOC.



Results

No exceptions were noted as a result of performing this procedure.

- 8.2** For each of the 10 projects, we compared the project's scheduled substantial completion date from the 2014 FSD SEP to the 2015 FSD SEP. For each project with a 2015 FSD SEP substantial completion date that is 180 days later than the 2014 FSD SEP substantial completion date, if applicable, we determined if the project's schedule change in readiness for use as a school or campus element was reported to the BOC.

Results

No exceptions were noted as a result of performing this procedure.

- 8.3** For each of the 10 projects, we compared the project's scope from the 2014 FSD SEP to the 2015 FSD SEP. For each project with a 2015 FSD SEP scope that differs significantly from the 2014 FSD SEP scope, if applicable, we determined if the project's scope change was reported to the BOC.

Results

No exceptions were noted as a result of performing this procedure.

Procedure 9

We selected a sample of four (4) Local Bond Information Technology Division (ITD) projects from the 2015 ITD SEP: Instruction Technology Initiative (ITI, formerly Common Core Technology Project), My Integrated Student Information System (MiSiS), Information Technology Network Upgrade, and Radio Systems. We reviewed for compliance with the LAUSD School Construction Bond Citizens' Oversight Committee (BOC) Memorandum of Understanding for ITD projects:

- 9.1** For each of the four (4) project types selected in procedure 9, we compared the 2014 ITD SEP Current Budget to the 2015 ITD SEP Current Budget. For each project with a 2015 ITD SEP Current Budget that increased \$100,000 or more than the 2014 ITD SEP Current Budget, if applicable, we determined whether the budget increase was reported to the BOC.

Results

No exceptions were noted as a result of performing this procedure.

- 9.2** For each of the four (4) projects selected in procedure 9, we compared the scheduled completion dates from the 2014 ITD SEP to the 2015 ITD SEP. For each project that has a 2015 ITD SEP substantial completion date that is 180 days or greater than the 2014 ITD SEP substantial completion date, if applicable, we determined whether the project's scope change was reported to the BOC.



Results

No exceptions were noted as a result of performing this procedure.

- 9.3** For each of the four (4) projects selected in procedure 9, we compared the project’s scope from the 2014 ITD SEP to the 2015 ITD SEP. For each project with 2015 ITD SEP scope that differs significantly from the 2014 ITD SEP, if applicable, we determined whether the project’s scope change was reported to the BOC.

Results

No exceptions were noted as a result of performing this procedure.

Procedure 10

We inquired of the Board of Education as to whether a survey of the compensation of managers of major construction programs and managers of major public and private facilities in comparable locations across the United States in both the public and private sector had been performed in accordance with the provision of Measure Y on a timely basis.

- 10.1** We determined whether Facilities Services Division management compensation survey was performed and presented to the Board of Education.
- 10.2** We determined whether the Board of Education declared a finding that the managers of the District’s Facilities Services Division are being compensated accordingly.

Results

The compensation test is a requirement from the November 2005 Bond Measure Y, which is on a two-year cycle ending in even number ended fiscal years. This procedure was reported in the previous fiscal year and is not required for the year ended June 30, 2015.

Procedure 11

We followed-up with management regarding the status of the FY 13-14 findings. See below for prior year findings, and the current status:

Finding – FY 13-14 - Procedure 10.2

We inquired of District management as to whether a survey of the compensation of managers of major construction programs and managers of major public and private facilities in comparable locations across the United States in both the public and private sector had been performed in accordance with the provision of Measure Y.



10.2 We determined whether the Board of Education declared a finding that the managers of the District's Facilities Services Division are being compensated accordingly.

Results

According to the provisions of Measure Y, managers of the Facilities Services Division shall have the educational and employment experience comparable to that of persons with similar responsibility in the private sector.

To ensure that the District employs managers of the Division who are so qualified, the Board shall no less than biennially, cause a survey of compensation of managers of major construction programs and managers of major public and private sectors, and the Board shall make a finding that the managers of the District's Facilities Services Division are being compensated accordingly.

We inquired of District management and verified that a survey was performed by the District's Personnel Commission in FY 13-14 that was aimed at addressing the provisions of Measure Y above. Although a survey was conducted, the District did not present the results of the survey to the Board of Education.

Consequently, the District was unable to obtain a declaration from the Board of Education that the managers of the District's Facilities Services Division are being compensated accordingly. Based on the information gathered above, the District is not in full compliance with the requirements of Measure Y.

Management Response

The District's Personnel Commission completed a draft report on management compensation, including compensation for employees in the Facilities Services Division. This report had been shared with Senior Leadership. Given continuing District budget concerns, management will discuss next steps regarding this report, including the requirements set forth in the District's local bond measures.

Current Status

Partially implemented. The management compensation survey was conducted, and the former Superintendent shared the report with the Board of Education; however, the District was unable to obtain a declaration from the Board of Education that the managers of the District's Facilities Services Division are being compensated accordingly. The survey is scheduled to be conducted this year and those results which would include updated salaries may be utilized to fulfill the bond language.



We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the District's administration of the Proposition BB, Measure K, Measure R and Measure Y School Bond Construction Program. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The District's written response to the exceptions identified in the report has not been subjected to auditing procedures and accordingly, we do not express an opinion on it.

The report is intended only for the information and use of the Board of Education, management, and members of the Citizens' Oversight Committee of the Los Angeles Unified School District and is not intended to be, and should not be used by anyone other than these specified parties.

Simpson & Simpson

Los Angeles, California

February 9, 2016